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Factsheet IP due diligence



1. What is IP due diligence?

EU SMEs are often involved in the production of creative works, inventions and distinctive symbols that generate a profit to their creators or inventors. Because of this, these companies should consider intellectual property rights (IPRs) as key elements for protecting their products against infringements.

The intellectual property (IP) system presents an opportunity to turn innovative ideas, creative designs and other intangible assets into valuable business elements that can be transferred, licensed or used as collateral to obtain financing, among other potential benefits.

Therefore, identifying the intangible assets of your company is the first step to fully understand and maximise their potential.

This is the context in which IP due diligence arises. Essentially, IP due diligence is the evaluation of the intangible assets owned or used by a company in order to obtain reliable knowledge about their value.

Some possible scenarios in which due diligence is recommended are the following:

- purchase, sale or licensing of IP assets;
- attracting investors;
- as a first step towards capital increase;
- access to finance assistance (i.e. requesting a loan);
- merger & acquisition of companies, joint ventures arrangements;
- tax-deducting purposes.

When IP assessment is performed by and for the company it can also be known as an IP internal audit. The main difference between an internal IP audit and a due diligence is that the former is performed at the request of the owner of the assets, whereas the latter is performed at the request of a third party, which might be a potential purchaser,

investor or business partner. An internal IP audit usually provides more detailed information, since due diligence is performed in a relatively short period of time and is mainly based on the documents that the owner is willing to provide to potential purchasers or investors.

Independent auditors usually conduct both internal IP audits and due diligence. Nevertheless, this does not prevent companies, including SMEs, from conducting their own internal IP audit.

Throughout this guide, for clarity purposes, the term used to describe the above will always be “due diligence”.

The aim of this Factsheet is to give an overview of the steps needed to carry out due diligence, as well as some specific aspects that must be taken into account when analysing IP assets in Latin America.

2. Why is it important to perform an IP due diligence?

Nowadays, IP assets are increasingly important for businesses to the extent that, for some, the IP rights owned by a company have a higher value than all the tangible assets. Just as the entrepreneur that wants to know if a truck is ready to operate or if the building they are planning to buy belongs to the person who claims to be the owner, they also need to know about the status of the IP assets of the company that they intend to acquire or invest in.

Moreover, according to tax and accounting rules, said assets can be included in the company's balance sheets and thus, its correct identification, protection and evaluation will have a positive impact on the overall value of the business. Depending on the role of the company (i.e. purchaser, seller, investor or lender), the objectives of the due diligence may vary. However, the main purpose of a due diligence is to collect information about:

- current status of IPRs;
- actual and potential liabilities derived from IPRs;
- strength and enforceability against third parties of the rights conferred;
- real economic value;
- other legal and economic risks.

TIPS and WATCH OUTS

A wrong or an insufficient due diligence or internal IP audit could have many adverse consequences, such as:

- paying for an expired or invalidated IPR;
- an overpriced asset (if the company is the purchaser);
- an under-priced asset (if the company is the seller);
- infringing third parties' rights by using an IPR, e.g. a transfer of technology without the licence of a third party's patent necessary to operate the technology being transferred;
- the transfer of an IPR by a party that is not entitled to transfer it because they are not the legal owner or it is a shared ownership work; e.g. the work is transferred by the entrepreneur, but it belongs to the employee;
- the incorrect valuation of a company because not all IP assets have been identified.

3. Due diligence step by step

A comprehensive IP examination involves at least the following general requirements:

- identification of the intangible assets;
- existence of the IPRs related to these assets;
- validity and current legal status of the IPRs;
- rights and obligations arising from the ownership of these IPRs.

A. Identification of the intangible assets

First, it is necessary to identify the intangible assets of the company (e.g. technological innovations, know-how, brand recognition, customer lists, software, databases...). EU SMEs do not always document or register all these intangible assets properly, even though they should, as good practice. In this sense, it must be highlighted that according to the latest [IP SME Scoreboard performed by EUIPO](#), the main barrier to the registration of IPRs for SMEs is the lack of knowledge of what IP is and how it can benefit their business. For this reason, this first stage of the due diligence should not be underestimated and it is highly advisable to rely on the advice of a professional.

If you would like to know more about this topic, please check our [Factsheet on Identifying your IP Assets](#) or [contact us](#).

B. Existence of IPRs related to the IP assets

At this stage, you must verify that these intangible assets are protected and properly registered as intellectual property rights when necessary.

For example, patentable knowledge that has been previously disclosed will not have the same value as a patent or a patent application related to this knowledge. That is because the disclosed knowledge may no longer be protectable with a patent, since an application may be invalid due to lack of novelty. However, national regulations must be taken into account: for instance, the majority of the countries in Latin America provide for a patent grace period of one year, calculated from the disclosure date of the patentable knowledge. Therefore, during the valuation of the disclosed patentable knowledge, it must be taken into account whether it would still be patentable under the “grace period” rule or not. For further information on patents and the grace period for novelty in Latin America, please check out our [infographic IPR as a tool for internationalisation: Patents](#).

Likewise, there are some rights that do not require registration, such as copyright or trade secrets. These assets should be documented and must be included in the sale or purchase agreement or in the global asset evaluation.

Example: if the target company produces a great amount of content protectable by copyright, such as computer programs, web content or publications, it is recommended that all of it is documented by any means, leaving a written record of their existence. Likewise, if it possesses substantial know-how (recipes, best practices for the working of some technology, etc.) there should be a record thereof to facilitate the identification and subsequent valuation and transfer.

Finally, it is important to take into account all intangible assets that the company has not yet protected as IPRs but can be claimed as such by registration thereof. Examples of this type of assets include non-registered trade marks, confidential knowledge, prototypes or projects that could be protected by patents, utility models or design rights.

C. Validity and current situation of IPRs

To avoid unnecessary risks, it is important to verify that the company you are negotiating with actually holds the property of the relevant IPRs. It is possible to conduct a preliminary search using free databases offered by National Offices:

FREE ACCESS DATABASES	
Argentina (INPI)	Colombia (SIC)
Brazil (INPI)	Dominican Republic (ONAPI)
Bolivia (SENAPI-Trade marks search)	Ecuador (SENADI)
Chile (INAPI-Patents search, INAPI-Trade marks search)	Uruguay (DNPI) (DNPI user and DNPI password required)

Countries like Paraguay or Cuba do not have free and online open access trade mark databases. There are also several international databases such as [Latipat](#) (patents database in Latin America and Spain), [Patentscope](#) (WIPO’s patent database) or [TMVIEW](#) (trade

mark database in several countries), which can be useful to identify the ownership of existing IP rights.

In case of doubt concerning the ownership of an IPR, you should contact the corresponding National Office to request a copy of the registration certificate.

Example: intangible assets of business conglomerates are often divided among different companies. Therefore, you should verify whether or not the company that you intend to enter into business with is really the owner of the patent you are interested in. It may actually belong to another company that is part of the same conglomerate but is not party to the transaction you are willing to negotiate.

Determining the ownership of the IP rights that do not need registration, notably in works protected by copyright, can be more complicated and may require further investigation.

Example: Works created by employees in the course of their employment are subject to specific provisions in all Latin American countries, which may limit the rights of the employer or the company over this work. In some cases, the employees’ rights regarding their works may prevent the company from transferring them without their consent. If you want to know the laws applicable to your case in a Latin American country please contact our fast, free and confidential helpline.

TIPS and WATCH OUTS

Given that IPRs are territorial rights, it is important to know the countries they are registered in, where applicable.

The stage of the procedure must be taken into account, especially for patents that have been applied for through the PCT system (the members of which are Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama and Peru).

Note that if the patent application is still at the stage in which protection could be extended to other countries (30 months after the procedure has been launched), the owner of this application may extend the territorial protection of the patent to any country member of the PCT system (list), which increases its potential value.

Granting, opposition or registration procedures. It is also advisable to know the current status of IPRs, e.g. whether the IPR is already applied for or granted and if there is any opposition or invalidity proceedings pending.

The status can be found in the databases mentioned above. However, in case of doubt, the best option is to formally request a copy of the records to the corresponding National Office.

Duration of the right and payment of maintenance fees. Depending on the country, the duration of the IPRs may vary:

	Copyright	Trade marks	Patents	Industrial designs*
Argentina	The lifetime of the author + 70 years	Unlimited (renewal every 10 years)	20 years	5+5+5 years
Bolivia	The lifetime of the author + 70 years	Unlimited (renewal every 10 years)	20 years	10 years
Brazil	The lifetime of the author + 70 years (except for computer programmes)	Unlimited (renewal every 10 years)	20 years (no less than 10 years)	10+5+5+5 years
Chile	The lifetime of the author + 100 years (except for computer programmes)	Unlimited (renewal every 10 years)	20 years	10 years
Colombia	The lifetime of the author + 70 years	Unlimited (renewal every 10 years)	20 years	10 years
Costa Rica	The lifetime of the author + 70 years	Unlimited (renewal every 10 years)	20 years	10 years
Cuba	The lifetime of the author + 50 years	Unlimited (renewal every 10 years)	10 years	10 years
Dominican Republic	The lifetime of the author + 50 years	Unlimited (renewal every 10 years)	15 years	5+5+5 years
Ecuador	The lifetime of the author + 70 years after death of the author or 70 years after creation/ disclosure when originally owned by legal person	Unlimited (renewal every 10 years)	10 years	10 years
El Salvador	The lifetime of the author + 70 years	Unlimited (renewal every 10 years)	10 years	10 years
Guatemala	The lifetime of the author + 75 years	Unlimited (renewal every 10 years)	20 years	10+5 years
Honduras	The lifetime of the author + 75 years from first publication if the work has been created by an employee in the course of employment	Unlimited (renewal every 10 years)	20 years	5+5+5 years
Mexico	The lifetime of the author + 100 years	Unlimited (renewal every 10 years)	20 years	5+5+5+5+5 years
Nicaragua	The lifetime of the author + 70 years	Unlimited (renewal every 10 years)	20 years	5+5+5 years
Panama	The lifetime of the author + 70 years	Unlimited (renewal every 10 years)	20 years	10+5 years
Paraguay	The lifetime of the author + 70 years	Unlimited (renewal every 10 years)	20 years	5+5+5 years
Peru	The lifetime of the author + 70 years	Unlimited (renewal every 10 years)	20 years	10 years
Uruguay	The lifetime of the author + 50 years	Unlimited (renewal every 10 years)	20 years	10+5 years
Venezuela	The lifetime of the author + 60 years	Unlimited (renewal every 15 years)	5-10 years	5 years

* In some countries design rights are awarded for a fixed period renewable for a limited number of times.

Maintenance and renewal fees need to be paid. Otherwise, the registered IPR will extinguish. These fees may have different names in different countries, such as 'renewal' or 'annuity'. To avoid the undesirable situation of paying for an expired right, you should request a proof of payment of the last due payment. The schedule of the fees may also differ from one country to another. Do not hesitate to contact [our helpline](#) for free-of-charge advice and clarifications on this.

Example: The payment made in Chile for the granting of a patent includes the maintenance fees for the first ten years, while in Argentina the maintenance fees have to be paid annually.

The strength of the right: The strength of the right refers to the risk it faces to be opposed or "attacked" by third parties, which may impact on how much the owner can enforce it against third parties

PATENTS

The patent title usually includes an examination report and/or a search report on the state of the art, documents regarding the novelty and inventive step requirements, and a confirmation of its validity.

TRADE MARKS

The strength of trade marks is widely based on whether there are absolute grounds of refusal in terms of validity. Absolute grounds include, among others, descriptiveness or lack of distinctiveness of the term in relation to the product or services it advertises, signs contrary to public morality (e.g. in 2009, INAPI Chile refused 'KO CAINE'), etc.

Consequently, brands the name of which describe the product they protect, or are similar to other pre-existing trade marks used for similar products or services, may face a potential opposition or a request for cancellation by third parties.

Example: Using "I help you" in assistance services for the elderly. Even if that brand is registered, it is possible for third parties to request its cancellation given that there is a close connection with the services provided and the use of the word "help", which would be the dominant term of the brand and it is used broadly to describe this type of services.

INDUSTRIAL DESIGNS

Industrial designs must be new and original to be valid in Latin America.

Example: In Brazil, INPI performs an examination upon request in which the novelty and originality of the design are assessed. Thus, a design that has successfully passed a merit examination by INPI in Brazil is stronger than one that has not.

TIPS and WATCH OUTS

The strength of an IPR should be assessed by an IP expert according to national rules applicable to a specific case and to the IPR.

D. Liabilities and rights arising from ownership

CONTRACTUAL

Some contractual obligations may be attached to some IP rights, which may, therefore, have to be assumed by the holder. These obligations can be related to:

The existence of licence or technology transfer agreements: this type of agreement confers rights and obligations upon the licensee and licensor. Before acquiring an IPR you should verify whether it is licensed or not and under what conditions (e.g. if it is an exclusive licence, its duration and if there are any conditions in the event of trade mark transfer).

Depending on the country, the licence must be registered for the purposes of opposition against third parties, thus allowing you to check the licences in the records of the Register at the National Offices. Likewise, technology transfer agreements may confer rights and obligations to the IPR owner, which may be transferred to the purchaser.

Example: In some countries, such as Argentina and Chile, Technology Transfer agreements must be registered in order to be opposed against third parties.

Patent Standards: Standards are agreements between several patent owners from the same industrial sector, under the coordination of a Standard Setting Organisation, concluded in order to standardise a technology in the sector enabling interoperability and compatibility between technologies. There are standards in different sectors. However, they are more widespread in technology-intensive ones and in those in which compatibility is a key feature, e.g. the hardware or the mobile phone sector.

The right holder who wants to benefit from interoperability has to apply for a licence for all the patents within the standard. This affects the cost of patents.

This results in a greater number of potential licences and, therefore, a higher turnover expected. However, when the patent is part of a standard, the right holder has to license it according to FRAND principles (see Glossary). This means that the royalties per licence of a standard patent will normally be lower.

Dependence on earlier rights: IPR management usually requires right holders to reach agreements with earlier right holders, which usually entail certain obligations.

Example: The most common agreements of this type are dependent patents (see Glossary) and trade mark coexistence agreements (see Glossary).

Mortgages and other financial burdens: Increasingly, IPR assets are used as a collateral for financing. They can also be seized in the context of legal proceedings or have restrictions on transferability.

TIPS and WATCH OUTS

It is possible to discover the financial burdens of an IPR by checking the agreements or the registers in the respective National Offices (not all of them). It is also common to request a signed statement that the IPR is transferred free of charges and encumbrances.

Confidentiality: It is also important for a company signing an NDA (see Glossary) to know about its scope and duration, as well as its potential influence on IPRs such as non-disclosed patentable knowledge or trade secrets.

NON-CONTRACTUAL

Ongoing judicial proceedings: Ongoing proceedings, such as an ownership claim or an infringement claim, will have a direct impact on the IPR's value.

Non-judicial claims: It is also advisable to assess the existence of possible non-judicial complaints, such as arbitration or mediation procedures against the company that might lead to legal proceedings.

FTO (Freedom to Operate): The FTO report drafted by independent experts analyses whether the use and commercialisation of an IPR (normally a patent) may infringe an earlier right. This type of report is very important in sectors based on technology or patents, such as the pharmaceutical sector.

NOTE

The ownership of an IPR involves certain obligations that can be transferred to the IPR purchaser. Thus, do not forget to review, at least, the following:

Contractual:

- Existence of licences or technology transfer

Agreements:

- Patent standards
- Dependence on earlier rights
- Mortgages and restraints
- Confidentiality

Non-contractual:

- Ongoing proceedings
- Non-judicial claims
- FTO

4. IP map

Once the company has collected all the IP-related information about its own business or the company it intends to buy or enter into a business relationship with, it should record the findings in an “IP map”, which is an IP management tool (usually with diagrams and graphics) that shows the overall status of the company’s IPRs.

The IP map is a very useful and strategic management tool, which facilitates and speeds up the decision-making process and the IP management for the board of directors. Having a single document that recompiles all the IP-related information of a business can prove extremely useful, as evidenced:

- when the short, medium and long-term R&D company policy is to be decided;
- when making the decision of entering a new market;
- when evaluating the acquisition of a company or a set of IP assets;
- when analysing the costs structure of the company.

E. IP valuation

Once the company has collected all the information on the existence, status and obligations and rights derived from IPRs, it should carry out a valuation.

The valuation should be performed by an expert on asset evaluation who, depending on the aim of the evaluation (acquisition of assets or of a company, evaluation of the company, risk analysis...), will use different evaluation criteria, such as the replacement cost, market value, book value or estimated cash flows and risks related to each IPR or country.

For more information on the different approaches to IP valuation, please check out our [factsheet on the topic](#).



5. Useful links and additional information

For more information about intellectual property in Latin America, visit <http://www.latinamerica-ipr-helpdesk.eu/content/helpline>.

For further information about due diligence and IPR audits:

- > [IP Due Diligence Readiness](#)
- > [IP Asset Management, IP Audit and Due Diligence](#)
- > [Demystifying IP Due Diligence](#)
- > [The Reason Why Due Diligence is Crucial in Latin America](#)
- > [IP Due Diligence – A Necessity, not a luxury](#)

6. Glossary

FRAND (Fair, Reasonable and Non-Discriminatory): The term FRAND refers to the obligation of the owner of a patent that is part of a standard to non-exclusively grant a licence to anyone who applies for it.

Said licence must be fair, reasonable and non-discriminatory. To determine whether a licence follows the FRAND principles, a case-by-case assessment is carried out.

Dependent patent: A patent that needs a prior licence of an earlier patent in order to be used and commercialised.

Coexistence agreements: Agreements which the IPR holder and the holder of an earlier IPR make to define the use and scope of each IPR. This usually happens when applying for a trade mark which conflicts with an earlier trade mark registration.

Non-disclosure agreements or NDA: Agreements to keep some secret information undisclosed between two parties or confidentiality clauses in an employee contract. Penalty clauses are included in case of breach of confidentiality.



Factsheet IP due diligence

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HELPLINE First-line advisory service on IP protection and enforcement for EU SMEs working or planning to operate in Latin America.

TRAINING Targeted trainings and webinars on IPR protection and enforcement for EU SMEs (including sector- specific approaches).

IP CONTENT State-of-the-art publications (factsheets, learning modules, videos, IP glossary, info graphics, case studies and newsletters) on the protection and enforcement of IPR in Latin America – specifically addressing IP matters from the SME business needs point of view.

AWARENESS RAISING EVENTS Participation in events attended by EU SMEs to increase the awareness of IP and of the visibility of the services provided by the Helpdesk.

IP ANALYSIS Analysis of IP challenges faced by EU SMEs in the target markets.

IP DIAGNOSTIC TOOLKIT Toolkit for self-evaluation of the IP-status of the user in terms of IP knowledge and management.

IP COST TOOL Online tool that allows the user to pre evaluate the costs related to IP management in every Latin American country covered by the Helpdesk.

¹The language offer will depend on the specific service and experts' availability.

If you have any queries on how to protect your Intellectual Property in Latinamerica contact our Helpdesk service:

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Working Hours: Monday - Friday 9:00 -16:30 (CEST)

If you want more information on additional free services offered by the Helpdesk contact the coordination team:

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